Budget and Policy Post

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COVID-19

An Overview of Federal Higher Education Relief

Signed by the President on March 27, 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act provides $2.2 trillion for a broad array of coronavirus disease 2019 (COVID-19) response efforts. In this post, we focus on the higher education provisions. We first provide some background on higher education in California. We then describe the higher education funding and other related provisions in the CARES Act. We conclude by highlighting some key issues for the Legislature to consider relating to its upcoming budget and oversight decisions.

Background

Below, we provide information on college students, institutions, and funding in California. We also describe the types of extraordinary costs that institutions have incurred to date in response to the COVID-19 outbreak.

California Currently Has 3.7 Million Higher Education Students. About 60 percent of these students are enrolled in the California Community Colleges (CCC), a system of 115 colleges operated by 73 districts located throughout the state. About 20 percent of students are enrolled in the state's two public university systems—the California State University (CSU), with 23 campuses, and the University of California (UC), with 10 campuses. The remaining about

20 percent of students are enrolled in the private sector, consisting of more than 150 nonprofit institutions and several hundred for-profit institutions. Of the total 3.7 million students, approximately 90 percent are enrolled in undergraduate programs, with the remainder enrolled in graduate programs.

Budget Development Is an Intricate Interplay of Local, State, and Federal Decisions. Of the 73 community college districts in California, 72 have their own locally elected governing boards. These boards are responsible for adopting annual budgets and setting policies within given state and federal parameters. The systemwide CCC Board of Governors coordinates the activities of these districts, as well as oversees the remaining community college district (Calbright College). The public university systems also have systemwide boards—the CSU Board of Trustees and the UC Board of Regents. As with the CCC systemwide board, these boards are appointed, with most members selected by the Governor and confirmed by the Senate. For their respective systems, these university boards are responsible for adopting annual budgets and setting policies, also within given state and federal parameters. CSU and UC campuses, in turn, are expected to manage their campus budgets. Each year, local and system governing boards modify their budget plans, as needed, in response to state and federal budget actions.

State Supports Campuses' Education-Related Operations and Student Financial Aid. In 2019-20, the state is providing a total of $15.5 billion in General Fund support to CCC, CSU, and UC. These public higher education segments primarily use state funding, along with student tuition revenue (and, at CCC, local property tax revenue), to cover their core operating expenses. These expenses include faculty salaries, employee benefits, building maintenance, equipment, and supplies. The state also is providing students attending public and private higher education institutions with a total of $2.7 billion in direct financial aid. Cal Grants—the state's largest student financial aid program—covers full tuition costs at the public segments for eligible undergraduate students, as well as provides the lowest-income undergraduates with some coverage for living costs. (The public segments direct a portion of their state funding and tuition revenue towards providing additional student financial aid.) Campuses' noneducation programs, such as housing and dining programs, generally are self-supporting enterprises and do not receive state funding.

Federal Higher Education Funding Targeted Toward Student Financial Aid and Research. In contrast to the state, the federal government does not directly support campus operations. Instead, federal funding is focused on a couple of areas. One notable focus is student financial aid. Like state and institutional aid programs, most federal student aid is needs based. Federal aid typically can be used for any cost associated with college attendance (including housing, food, transportation, and books). Federal aid comes in the form of loans, grants, and work-study (which provides part-time jobs to financially needy students). In federal fiscal year (FFY) 2019-20, students at California institutions are receiving an estimated $8.5 billion in federal loans, $4 billion in Pell Grants, $108 million in Federal Supplemental Educational Opportunity Grants, and $136 million in Federal Work-Study funds. (Supplemental Education Opportunity Grants provide additional gift aid on top of Pell Grants to undergraduate students with exceptional financial need.) The other notable focus of federal higher education funding is research. In 2017 (the latest data available), California higher education institutions received a total of $4.8 billion in federal research funding, generally in the form of competitive grants.

Some Minority-Serving Institutions Receive Federal Grants for Particular Endeavors. The federal government administers several grant programs for minority-serving institutions, which have high concentrations of students from certain racial/ethnic groups. Of these programs, the Hispanic-Serving Institutions program supports the largest number of institutions in California. Under federal law, 137 institutions in California are eligible for this program, and 68 currently are receiving competitive grants for particular initiatives. One college, for example, is offering a peer coaching program to support first-year students and another college is offering support services to increase the number of underrepresented students in certain academic programs. Nationally, about 100 institutions qualify under federal law as Historically Black Colleges and Universities, but none of these institutions are located in California. (California does have one institution—the Charles R. Drew University of Medicine and Science—that qualifies for funding under a federal program focused specifically on historically black graduate institutions.)

COVID-19 Outbreak Is Financially Impacting Campuses and Students. To mitigate the spread of COVID-19, higher education institutions have closed their physical campuses and shifted much of their instruction online. The shift to remote operations has generated higher institutional costs in some key areas, including technology and training. In addition to incurring these higher costs,

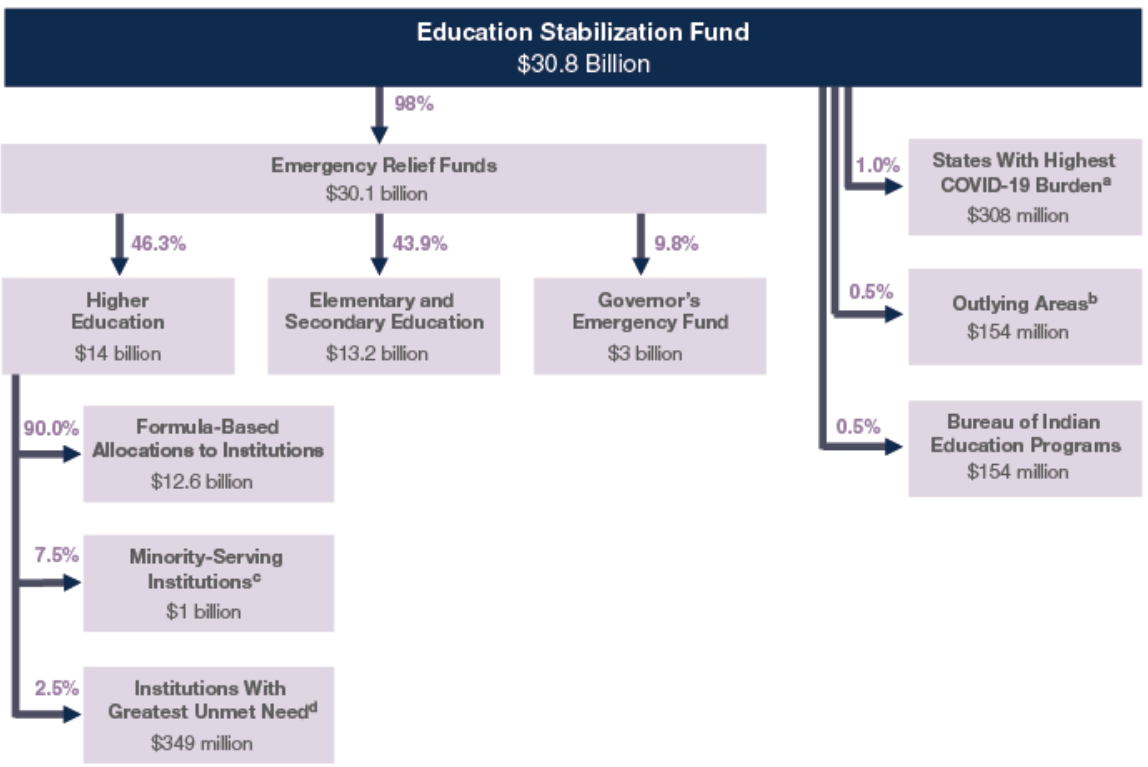
many institutions have lost revenue from refunding student charges for cancelled or dropped classes as well as disrupted on-campus housing, dining, and parking services. The pandemic also has created financial challenges for some students and their families—particularly those who have lost income due to reduced work hours or layoffs.

CARES Act Provisions

Of the $2.2 trillion in federal relief funding contained in the CARES Act, $30.8 billion is for a newly created Education Stabilization Fund. This fund is for higher education institutions, elementary and secondary schools, and states to cover costs related to the COVID-19 outbreak. Figure 1 provides an overview of the components of this fund. Below, we first focus on the higher education relief funds, then turn to the Governor's Emergency Relief Fund, and finish by describing other notable higher education provisions in the act. (We discuss the elementary and secondary school provisions, as well as the major CARES Act provisions relating to research, in two forthcoming posts.)

Figure 1

Overview of Education Stabilization Fund



[a] The Coronavirus Aid, Relief, and Economic Security Act does not specify how the U.S. Department of Education is to determine these particular allocations.
[b] Funds provided to American Samoa, Guam, Northern Mariana Islands, and Virgin Islands.
[c] Funds support additional grants for Historically Black Colleges and Universities, Hispanic-Serving Institutions, the Strengthening Institutions Program, and other related programs.
[d] Funds support additional grants for institutions that the U.S. Secretary of Education determines to have the greatest unmet need, with priority for institutions receiving small base grants.

COVID-19 = coronavirus disease 2019.

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Higher Education Relief Funds

Most Higher Education Funds Will Be Allocated to Institutions by Formula. Of the $30.8 billion in Education Stabilization Funds, $14 billion is designated for higher education institutions. Of the $14 billion, $12.6 billion (90 percent) is allocated according to a formula specified in the CARES Act and calculated by the U.S. Department of Education (ED). Specifically, 75 percent is allocated based on the number of full-time equivalent undergraduate students receiving Pell Grants and 25 percent is allocated based on the number of full-time equivalent undergraduate and graduate students not receiving Pell Grants. (The formula excludes students who were enrolled exclusively in distance education programs prior to the COVID-19 outbreak.) Public and private higher education institutions qualify for this formula-based funding.

California Is Set to Receive $1.7 Billion in Formula-Based Funding. On April 9, ED released its funding determinations for each qualifying higher education institution. Figure 2 shows the allocations to higher education institutions in California by segment. These funds will be distributed directly to institutions using the process typically used to distribute federal student aid funds. Institutions are required to spend at least half of their allocations on emergency financial aid for students, with the remainder available for institutional relief. ED made the emergency student financial aid funds available on April 10, with the expectation that institutions begin drawing down those funds immediately. On April 21, the department made the institutional relief funds available, also with the expectation that institutions draw down funds immediately. To draw down institutional relief funds, institutions must first have applied for and drawn down emergency student aid funds. Eligible higher education institutions have until September 30 to apply for these two pots of funding.

Figure 2

Higher Education Relief Fund Provides $1.7 Billion to California Institutions

Formula-Based Allocations by Segment (In Millions)

Segment	Amount[a]
CCC	$580
CSU	525
UC	260
Private for-profit	170
Private nonprofit	168
Other public[b]	4
Total	**$1,707**

[a]Does not include funds designated for minority-serving institutions or institutions with greatest unmet need.

[b]Includes adult schools and regional occupational programs eligible for federal financial aid.

Institutions Have Considerable Discretion in Allocating Student Aid Funds. Emergency financial aid is intended to help students respond to campus disruptions resulting from the COVID-19 outbreak. Students may use any

emergency aid they are granted for housing, food, technology, course materials, health care, or child care, among other costs. Based on initial federal guidance, institutions are not required to limit emergency aid to students who typically would qualify for federal gift aid, though ED encourages institutions to focus on students "with the greatest need." As with other federal financial aid programs, institutions are prohibited from awarding funds to undocumented students. Institutions have discretion to determine the amount of each award, although the department encourages institutions to set a maximum award amount. As a condition of receiving these funds, each institution ultimately must report to the U.S. Secretary of Education how grants were distributed to students, how the amount of each grant was calculated, and any instructions that the institution gave to students about the grants.

Institutional Relief Funds Can Be Used for Array of Expenses. Institutional relief funds are intended to help campuses cover costs associated with any significant changes they needed to make to the delivery of their instruction due to the COVID-19 outbreak. Institutions may use their relief funds, for example, to help faculty convert classes from in-person to online, including any associated technology and training costs. Campuses also may use institutional relief funds to reimburse themselves for lost revenue associated with shutting down their physical campuses. This includes backfilling lost revenue due to providing refunds to students who moved out of campus housing, canceled on-campus meal plans, or withdrew from classes. Campuses are required to submit quarterly reports to ED that document how they are using these funds.

Some Higher Education Funds Are for Programs Focused on Minority-Serving Institutions… In addition to the formula-based funding, some California higher education institutions could receive supplemental relief funding. Specifically, of the $14 billion in higher education relief funding, a total of $1 billion (7.5 percent) will be allocated to the programs listed in Figure 3. These programs provide grants primarily to minority-serving institutions. The $1 billion will be allocated among these programs in proportion to their funding levels in FFY 2019-20. In general, relief funds provided through these programs may be used for student financial aid and institutional expenses, with no specific requirement as to how the funds should be split between the two purposes.

Figure 3

Relief Fund Designates $1 Billion Nationally for Minority-Serving Institutions

Estimated Funding by Program (In Millions)

Program	Amount[a]
Historically Black Colleges and Universities (HBCUs)	$447
Hispanic-Serving Institutions	197
Strengthening Institutions Program[b]	149
Historically Black Graduate Institutions	116
American Indian Tribally Controlled Colleges and Universities	50
Alaska Native and Native Hawaiian-Serving Institutions	25
Predominantly Black Institutions	18
Promoting Postbaccalaureate Opportunities for Hispanic Americans	18
Master's Degree Programs at HBCUs	14
Native American-Serving, Nontribal Institutions	6
Asian American and Native American Pacific Islander-Serving Institutions	6
Total	**$1,046**

[a]Reflects estimated amount provided nationally. Specific estimates for California institutions are not available at this time.

[b]Supports institutions with high percentage of low-income students.

…Tens of Millions of Dollars Are Likely to Go to Hispanic-Serving Institutions in California. Of these federal programs, the Hispanic-Serving Institutions program is the largest potential source of relief funding for California institutions. As grants for this program are typically awarded on a competitive basis, we are unable to determine exactly how much in relief funds California institutions will receive. Given that roughly one-third of institutions eligible for these grants are located in California, the amount could potentially be in the mid-to-high tens of millions of dollars. None of the remaining programs are likely to

provide a large amount of funding to California, either because a small share of eligible institutions are located in the state or because the total amount of funding available nationally is small.

Small Portion of Higher Education Funds Is Designated for Institutions With Unmet Needs. Of the $14 billion in higher education relief funding, $349 million (2.5 percent) is for this purpose. ED will determine which institutions receive these funds. The funds will be distributed through an existing program, the Fund for the Improvement of Postsecondary Education, which focuses on supporting higher education institutions that implement innovative strategies designed to improve student outcomes and college affordability. The CARES Act specifies that priority for these funds will go to institutions that receive formula-based allocations of less than $500,000 and have significant unmet expenses related to COVID-19. About 10 percent of institutions with formula-based allocations of less than $500,000 are located in California. Most of these institutions are private for-profit or nonprofit institutions. Similar to the funding for minority-serving institutions, these funds may be used for any mix of student financial aid and institutional expenses.

Governor's Emergency Relief Funds

Relief Package Also Gives States Some Flexible Funds for Education. In addition to relief funds specifically earmarked for higher education institutions, the CARES Act provides $3 billion for the Governor's Emergency Education Relief Fund. Of this funding, 60 percent is allocated to states based on their population aged 5-24 and 40 percent is allocated based on the number of children in poverty or meeting other specified criteria. The funding is to support (1) emergency grants to higher education institutions most impacted by the COVID-19 outbreak, as determined by the Governor; (2) emergency grants to elementary and secondary schools most impacted by the outbreak, as determined by the State Department of Education; and (3) grants to any education-related entity for providing emergency education services, child care, social and emotional support, or job protection. States have considerable discretion in deciding how to allocate funding among these three categories.

California to Receive $355 Million in Governor's Emergency Relief Funds. On April 14, ED released a brief application that states must submit to access these funds, with applications due by June 1. According to the Department of Finance, the Governor is in the midst of applying for these funds. ED intends to release funds to the Governor's office of each state within three business days of

receiving its application. Upon receiving California's allocation, the Governor in turn has 45 days to submit a more detailed plan to the federal government regarding how he intends to allocate the funds among education entities in the state. The Governor has one year from receipt of the state's funds to distribute awards to selected education entities.

States Are Expected to Maintain Education Funding at Recent Levels. As a condition of receiving a state allocation under the Governor's Emergency Education Relief Fund (and the Elementary and Secondary Education Relief Fund), states are to maintain their support for education. Specifically, states must agree to maintain their support for higher education and K-12 education at the average annual level it provided in the prior three fiscal years. The U.S. Secretary of Education may waive this requirement, however, for states that experience a "precipitous decline in financial resources."

Other Higher Education Provisions

CARES Act Temporarily Modifies Rules Applying to Federal Student Loans. The act suspends student payment on federal student loans held by ED for six months (through September 30, 2020). These loans will not accrue interest during this period. The act also suspends collections for loans in default. The CARES Act further requires ED to immediately notify borrowers of these provisions and contact affected borrowers starting on August 1, 2020 about the resumption of payments and the availability of income-driven repayment plans.

CARES Act Temporarily Modifies Requirements of Several Other Federal Aid Programs. In general, these provisions aim to give institutions greater flexibility to issue emergency student aid and extend students' financial aid eligibility. Most notably, the CARES Act contains the following temporary modifications to program rules in response to the COVID-19 outbreak:

- Allows institutions to repurpose Federal Supplemental Education Opportunity Grant funding to provide emergency grants to undergraduate or graduate students. Also gives institutions more flexibility to determine maximum grant amounts.
- Allows institutions to continue making Federal Work-Study payments to students who are unable to complete their work-study obligations due to the outbreak.

- Waives the requirement that institutions provide matching funds for the federal supplemental grants program and the Federal Work-Study Program during the 2019-20 and 2020-21 award years. Also allows institutions to transfer unused funds from the Federal Work-Study Program to the supplemental grants program.
- Waives the requirement that institutions/students return a prorated portion of Pell Grants and federal loans if students withdraw part way through the term due to the outbreak.
- Excludes any semester that students do not complete due to the outbreak from the maximum length of time they may receive Pell Grants and federal student loans.
- Excludes any course credits that students do not complete due to the outbreak from calculations of satisfactory academic progress (which students must maintain to stay eligible for federal financial aid).

CARES Act Also Temporarily Modifies Rules for Programs Supporting Minority-Serving Institutions. During the COVID-19 outbreak, the CARES Act allows ED to waive certain requirements related to determining eligibility and grant amounts for programs supporting minority-serving institutions. It also allows the department to modify requirements related to institutional matches and allowable uses of grant funds, at the request of participating institutions.

Issues to Consider

Below, we identify several initial issues for the Legislature to consider relating to federal higher education relief funding and its potential impact on campuses, students, and state budget decisions. We plan to release additional analyses in the coming months, as more data become available on the impacts of the COVID-19 outbreak and the emerging recession on higher education in California.

CARES Act Funds Are Likely Insufficient to Address Total Impact of COVID-19 Outbreak. To date, the data on the fiscal impact of the COVID-19 outbreak on campuses and students is incomplete and inconsistent. Nonetheless, initial data suggest that the federal relief funding provided under the CARES Act likely will be insufficient to address the full effects of the outbreak. For example, through March 2020, UC reported $310 million in lost revenue and higher costs on its general campuses due to the COVID-19 outbreak. This is $180 million more than UC is receiving in federal institutional relief funds through the

CARES Act. (Of the $260 million UC is receiving in federal relief funding, $130 million each is allocated for student financial aid and institutional aid.) As UC's and other institutions' costs grow as the effects of the outbreak and recession continue, we expect adverse programmatic effects will deepen.

Other Federal Programs Might Provide Relief to Higher Education Institutions. While CARES Act higher education relief grants likely will not be sufficient to cover all of the costs campuses incur in responding to the outbreak, other federal programs could provide some additional relief. Most notably, the Federal Emergency Management Agency is reimbursing state and local agencies for certain disaster-related COVID-19 costs. (We plan to examine the impact of these federal reimbursements on higher education institutions in a forthcoming post.)

State Does Not Have Comparable Ability to Fund Relief Packages. Unlike the federal government, California is required under the State Constitution to enact a balanced budget each year. In large part because of this requirement, the state has very limited options to provide stimulus and relief packages compared the federal government. Notably, apart from internal borrowing and drawing down its reserves, the state does not have the immediate ability to help campuses cover remaining costs after they have exhausted their federal relief funding. Moreover, like other state and local agencies, campuses not only are facing extraordinary, unexpected costs but they also will be affected by the state's deteriorating budget condition.

Critical for State to Provide Higher Education Institutions With Early Budget Signals. Though the exact magnitude of the drop in state revenues remains highly uncertain, economic data to date suggest the drop could be substantial. In responding to past budget crises, the state typically has started by taking actions such as deferring the timing of payments and repurposing unspent funding from prior years—actions that help preserve ongoing programs. The state then typically has been compelled to enact budget reductions. Given how quickly the current budget crisis has emerged, the higher education segments will have little time to make programmatic adjustments in response to state budget decisions. By August, campuses already will have set their course schedules for the fall academic term (if not begun classes) and staffed accordingly. The less notice campuses receive, the less likely they will be to accommodate programmatic cuts in 2019-20 and 2020-21, and the more likely they are to reduce, if not deplete,

their reserves. Low reserve levels, in turn, could result in campuses having cash flow problems in 2020-21 and entering 2021-22 in a particularly vulnerable fiscal position.

Vigilant Oversight Will Be Key to Assessing Remaining Needs and Building State Budget. Given the amount of flexibility the CARES Act provides higher education institutions and the Governor, we recommend the Legislature conduct oversight hearings focused on the federal higher education relief funds and adopt associated reporting requirements for each of the higher education segments. Understanding the timing of when institutions receive funding, how the funds were spent, and what student and institutional needs remain will help the Legislature make key budget decisions moving forward.

Options Exist to Guide and Oversee Use of Governor's Emergency Relief Funds. One area that merits immediate legislative oversight is the Governor's Emergency Relief Fund. To ensure the Legislature can provide input into how these funds are allocated, we recommend it hold an informational hearing. During the hearing, the administration could share its initial allocation plan, and the Legislature could offer feedback on the plan. The Legislature then could request that the Governor notify it when the allocation plan has been submitted to the federal government. In addition, the Legislature could request that the Governor provide it with an update approximately six months later to report how education entities are using these relief funds.

State Could Need a Waiver From Maintenance-of-Effort Requirements. Given the anticipated drop in state revenues, along with the anticipated corresponding drop in the Proposition 98 minimum guarantee for schools and community colleges, the state might not be able to meet the education spending maintenance-of-effort requirements in the CARES Act. We recommend the Legislature ask the Governor to keep it apprised of any waiver-related developments. At a minimum, the Legislature could ask the Governor to notify it 72 hours in advance of when he plans to submit the waiver request to the federal government as well as provide notification whether the request is approved or denied. (Given past experience, we believe the state has a high likelihood of having a waiver request approved by the U.S. Secretary of Education.)